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SNOWFLAKES THE SIZE OF HUMAN HEADS

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HIGHLIGHT:

Fortune magazine of June 12 ran an article by Richard Behar titled "Capitalism in a Cold Climate." On June 21, it was reprinted in abridged form by a Moscow newspaper

At first sight, the central figures in the 20-page publication seem to be Trans World Group, and the brothers David and Simon Reuben, and Lev and Mikhail Chernoy. The article apparently sets out to use the aluminum business as a case study for Russia's criminalized economy.

Behar, however, goes a step further than that. The article is multilayered and multitargeted. And this is very serious and disturbing. Let us try to unwrap it, starting with the very first layer.

Layer One

In his article, Behar - often repeating himself - lists accusations to the effect that TWG, the Reuben brothers, and the Chernoy brothers were involved in embezzling funds from the Russian Central Bank by using fake letters of credit and were also behind a series of contract hits in the aluminum industry. He cites the press, some "sources," and his own "investigation." Meanwhile, many of the charges will remind an attentive reader of a word-for-word translation from the anonymous Internet site Kogot (Claw), offering various discrediting things, which, by the look of it, could have been Behar's main source of "investigation."

Still, Behar must know that Lev Chernoy and TWG have already won several law suits against media outlets that smeared their reputation with similar accusations. And so he makes a point of saying that all charges of embezzlement against the Chernoy

were dropped, even writing that "the reality behind those accusations is a slippery thing."

Behar is convinced that the accusations are well grounded. But this is his personal opinion. Moreover, it would hardly be worth discussing the Fortune article for the sake of TWG and the Reuben and the Chernoy brothers, who have sold all of their aluminum assets in Russia. Especially considering that people in the know in this country are aware that discrediting articles against Lev Chernoy, the Reubens, and TWG have been masterminded by a rival Russian aluminum group, which, in the wake of a split between the brothers, was joined by Mikhail Chernoy. So there must be some vested interests at stake here, as can be seen from, in particular,

Layer Two

Behar reports that workers at Trans World's plants in Russia (e.g., at the Krasnoyarsk smelter) "make, at best, about \$ 300 a month."

Western readers will be appalled at this figure as they do not know that the average monthly wage in Russia today is \$ 62. Or that TWG plants also provided an important package of social services for their employees, including cheap housing credits. And that as a result, there were far more applicants than jobs available at those enterprises.

Yet Behar goes on to say that when TWG was in control of the Sayansk smelter, "employees likened the place to a concentration camp," while after the plant broke free from Trans World in 1997, its profits improved nearly 600%,"- "according to a study by Russia's top accounting office."

It is no accident that Behar, who makes no secret of his partiality for the present owners of the Sayansk smelter, does not name "Russia's top accounting office," citing anonymous "employees." The fact is that the RF Audit Chamber made an altogether different assessment of the Sayansk plant's performance. Furthermore, the way in which Siberian Aluminum gained control of the plant - extra issue of shares, to the detriment of the state's and the TWG shareholders' interests - is still being contested in courts.

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As for the workers' wages, under the new owners at Sayansk, they are almost half of the Krasnoyarsk \$ 300 which Behar found so appalling.

Layer Three

Behar holds up the Alcoa U.S. aluminum super corporation as an example of "civilized business." Moreover, the article incorporates an extensive interview with Alcoa's chairman, Paul O'Neill.

O'Neill says that Alcoa has not invested in Russia because "people don't offer us these kind of deals. If they did, we'd say, 'Go to hell.' ...The pollution levels and the working conditions were unbelievable. Three days after we left there, the guy we had been negotiating with, the deputy director (Yafyasov), was shot. And that was the end of our discussion."

Apparently, O'Neill's poor memory has a special role to play here because "the discussion" continued. In particular, in January 1998 Paul O'Neill and Alcoa Vice President Richard Fisher negotiated with Anatoly Bykov, board chairman of the Krasnoyarsk smelter. Later in the year, Alcoa representatives came to Bratsk to discuss the possibility of buying a stake in the Bratsk aluminum plant.

Next, Behar criticizes monopolization of the aluminum market by a new company, Russian Aluminum: "Putin's anti-monopoly office has expressed no misgivings about allowing Berezovsky and his cartel to walk off with three-quarters of the industry." Yet he omits to tell the reader that Alcoa (just like Russian Aluminum in Russia), controls approximately 75 percent of the U.S. aluminum market and continues to expand. Neither does Behar mention the fact that Germany, France, Norway, and Switzerland each have just one, and totally monopolistic, aluminum company. Neither does he say that mergers, including among multinationals, continue in all Western countries.

No wonder Behar "forgets" to mention that recently Alcoa has been showing strong interest in buying stakes in Russian aluminum plants.

Of course, Alcoa and O'Neill are interested parties here. Do they need a major rival on the world aluminum market: Russian Aluminum?

Still, there is yet another important circumstance. Alcoa Chairman Paul O'Neill also heads up the Rand Corporation whose political leanings and traditionally negative attitude to Russia are well

known. And O'Neill himself inadvertently reveals these political leanings when he says that Alcoa was going to invest in Russia and there was even a proposal that he was "prepared to make to Russia's Prime Minister Primakov... But before you knew it, Primakov was gone. So who is there to talk to?"

Layer Four

"Since the Soviet Union imploded in 1991, a struggle has unfolded between ...the democratic impulses of the Russian people and the centuries-old criminal subculture that holds an unspoken share of power there." "Today it is common knowledge that the Russian government and the old Communist Party nomenklatura are tied in with the thousands of criminal gangs now operating in Russia..."

"(TWG) failed to produce credible explanations... for nearly \$ 1 billion in payments... Well, the loot certainly wound up in some curious places: MABETEX: This Swiss construction firm is at the center of a huge bribery scandal; ...BENEX: This defunct U.S. shell lies at the heart of the Bank of New York money-laundering scandal; ...Ilis Management ...at the heart of a huge, mob-linked stock scam run through YBM Magnex... Semyon Mogilevich..."

"Whatever the Reubens' transgressions may be, they represent only one outbreak of an infection that has all but consumed the country. From one business to the next, from caviar to coal, Russia has made itself repellent to those who might have rejuvenated it. How it will recover now is anybody's guess."

Let's now take a rest from quoting Behar and we will see that what he has said is far more serious and wide-ranging than mere Reubens, Chernoy, TWG or Alcoa. This is a conceptual generalization. What this means is, essentially, that Russia is a new Evil Empire - vicious, nasty, incorrigible, and also "infectious" to anyone coming into contact with it.

Who coined the phrase "Evil Empire"? Correct - Reagan. And who is resurrecting this concept in the United States? Correct - the team of Bush Jr. who included the slogan of "Democrats who lost Russia" into his presidential election platform.

Layer Five

Nonetheless, "Evil Empire" is not only Russia. In Kazakhstan, for example, "things weren't much

better."

Reporting on Trans World operations in Kazakhstan, Behar says that "the government confiscated the Reubens' assets after accusing them of having 'materially damaged' its plants." He omits to mention, however, that after TWG filed a series of suits with international arbitration courts, the Reubens' former partners in Kazakhstan hastened to settle the matter out of court, paying the Reubens a large compensation for the confiscated assets.

But the most important revelations are yet to come. Behar says that the Reubens' money - more than \$ 35 million - "was given to certain partners in their Kazakhstan operations" and deposited in Swiss accounts which benefited Kazakhstan's current leaders...

Needless to say, the accusations were immediately posted on the Eurasia Internet site controlled by President Nazarbayev's arch political rival - Kazhegeldin, Kazakhstan's former prime minister (who, it should be added, is facing charges of large-scale fraud and therefore does not dare set foot in his home country).

Needless to say, Kazhegeldin is closely associated with U.S. Republican Party think tanks that are now claiming, more and more vociferously, that the Democrats - that is, the Clinton-Gore administration - "lost" not only Russia but also many other post-Soviet countries.

Layer Six

Yet Behar's main political targets and concerns are even more wide-ranging.

According to him, "in Britain, Operation Copperfield led British intelligence agents to connect the Chernoy with Vyacheslav Ivankov, the jailed 'godfather' of the Russian mafia's American arm."

Next, Behar says that in the United States the Reubens needed "high-powered help, and they found it in Mickey Kantor," the former U.S. Commerce Secretary, and his law firm, Mayer Brown & Platt, stressing that the lawyers have enlisted IGI, the investigative agency that President Clinton used during the Monica Lewinsky affair.

Then Behar states that Mikhail Chernoy's partner was Sam Kislin, "later named in an FBI report as an associate of a now imprisoned Russian 'godfather'

(Ivankov)," and that "Kislin has since become a member of the Economic Development Board in New York City as well as a big donor to Bill Clinton, Al Gore, and Rudolph Giuliani."

At this point it becomes abundantly clear that the opponents of Gore and of other Democrats in the upcoming U.S. presidential election are laying the ground for a smear campaign. And Behar provides them with plenty of ammunition: The Clinton-Gore team not only "lost Russia," failing to prevent its transformation into a new Evil Empire. This team is also linked to the "Russian mafia": It used to be funded by this mafia and is probably still being funded by it. Moreover, it is the most terrible of mafias - the "aluminum mob" - involved not only in money-laundering through BONY but also in drug trafficking and contract killings. This is the kind of bunch that the Democrats hang out with.

Layer Seven

Behar does not treat the reader to too many facts to back up his allegations. This may sound convincing to a Western reader who still believes that Russia is a land of bears and permafrost. For the Russian reader, however, Behar's assertions are simply offensive.

Little wonder the abridged version of the text published in a Moscow newspaper contains none. True, neither does it make any reference to the Russian Aluminum holding and its monopoly position and everything that has to do with alleged links between the top Russian political elite and the Reubens, the Chernoy, Mogilevich, Ivankov, and so forth, or any references to Mikhail Chernoy and innuendoes to the effect that Clinton and Gore are funded by the "Russian mafia."

All that was left out of the Russian version, but what was left in? For example, the positive role of the Siberian Aluminum holding, the company with which Alcoa's current merger partner, Reynolds, has long-standing warm, businesslike relations. So this also makes it quite clear whose interests the publication upholds.

As for Behar's knowledge of Russia, here is his comment on Krasnoyarsk to give the reader some idea of it: "A place where snowflakes the size of human heads have been known to fall."

This is followed by more revelations, equally "authentic" and blood-chilling: At the Krasnoyarsk smelter "people have to work in a fume-choked

inferno."

Presumably, among the snowflakes the size of human heads. It would be interesting to know whether Behar has ever been to smelters in the West? Or does he believe that the aluminum melting-point is "more civilized" there?

In attacking Russian tolling practices, Behar forgets to tell the reader that tolling - that is, processing of raw materials under customs control - is a lawful international business practice that is used by all countries in the world in various industries - from oil refining to aluminum to textile production. Behar continues to write that "tolling provided a financial incentive to entrepreneurs to revive the foundering aluminum sector... In essence, the Reubens were patching up the links between the various republics that had disintegrated with the Soviet Union. Only now Trans World, rather than a central planning committee, was running the show."

Behar goes on to say that the fact "that Lev and Berezovsky managed to buy Kommersant is a fitting symbol for a place that seems to be beyond the help of a free press anyway." One might think that, say, Rupert Murdoch's or Ted Turner's private media empires have never bought up newspapers or TV channels or sacked their managers and chief editors.

Behar also stresses that Bratsk and Krasnoyarsk "remain the worst polluters in the industry" and that Trans World have done hardly anything to introduce available new technologies, citing Dr. Horst Peters, "whose VAW Aluminium-Technologie supplies cutting-edge equipment to Russian plants."

But - yet again - he forgets to tell the reader that the Bratsk and the Krasnoyarsk smelters declined Dr. Horst's services as unacceptable in terms of both price and quality. Also, that these plants are constantly upgrading their purification and production facilities, developed and manufactured in Russia. And that as a result, in the past two years of its cooperation with Trans World, Krasnoyarsk, for one, has reduced harmful emission levels several-fold, ensuring the industry's biggest share of high-quality aluminum in its output (all that, purportedly, without cutting-edge equipment) and receiving the Best Performer in the Industry certificate in 1999 for environmental, production, and economic results achieved. Which again goes to show who Mr. Behar is beholden to.

The sources that Behar constantly uses to

substantiate his allegations are just as indicative. These are for the most part rumors of unknown origin: "The British (what British?!) are now reportedly calling Trans World's Lev Chernoy one of... Mogilevich's associates." The article is distressingly full of phrases like "they say," "our investigation traced," "reportedly," "as one newspaper remarked," "it is common knowledge," "the local press reports," "it is known that," and so forth.

It's a pity that this sort of article appeared in Fortune magazine. After all, American journalism standards are, by and large, a notch or two above that. Presumably, the need for this publication was so strong that the deal went through despite the dubious quality of the product in question.

Who Is To Blame

and What Is To Be Done?

All of that, however, is their own funeral, as the saying goes. Yet, just like everything else in Behar's article, it has a direct bearing on us. The fact is that in his accusations, Behar constantly cites the Russian press and "Russia's only independent TV station," thus raising a problem that is very sensitive and painful to us.

It is Russian "independent media," co-opted by participants in internal Russian corporate sleaze wars, that have been creating the vicious/criminal image of Russian business and of the Russian ruling authority that people like R. Behar are now using to play their games - much to the advantage of Russia's economic and political rivals.

The struggle between various clans in Russia, cleverly stoked by these rivals, impedes all efforts to restore at least some strategic internal, foreign, economic, social, or other policies in the country. As a result, Russia is increasingly emerging - both in part and as a whole - as an inanimate commodity in deals between forces alien and hostile to it. This struggle - even in the most favorable economic and political scenario - dashes any hopes for the country's revival and advance.

However, the Russian corporate community, which is using media sleaze wars to wipe out competition, should - if it is not concerned about the country - at least be guided by considerations of "enlightened self-interest." For example, the fact that the U.S. State Department has long been gathering discrediting material on Russian citizens who are to

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be denied entry to the United States. And the sources are publications in the Russian and foreign press pointing to alleged "mafia links," "money laundering," "criminal businesses," and so forth. Significantly, U.S. officials admit that they have no other information sources besides newspapers. So, gentlemen who believe (as one of our high-profile businessmen said) that "money has got to be made here but alternate airfields built there," should at least think about their own future.

We live in an era of global world trade where the notions of "currency market," "oil market," "metal market," and so forth have long gone side by side with "information market" and "political market." And we, having removed the "Iron Curtain," cannot ignore their laws. In these conditions, the actions by Russian elites, engaged in dumping practices against each other on all of the aforementioned markets without exception (to the joy of their rivals,

seizing effective control of these markets), are not a mere anachronism. This, as Talleyrand used to say, is "worse than a crime: It's a mistake." A mistake that it is high time to correct.

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